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## REFORMS NEEDED TO IMPROVE THE DoD BUDGET PROCESS

BY

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#### AN INDIVIDUAL STUDY PROJECT

by

Lieutenant Colonel Kenneth F. Johnson  
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# ABSTRACT

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The federal budget process must be reformed. The process has become so time consuming that it dominates the workload in Congress and within the Department of Defense (DoD). Because of the time spent in formulating, presenting, and justifying the budget every year, little time is left for the leaders of Congress and DoD to analyze and develop strategic concepts and visions. We must improve the procedures that currently impede the effective use of our funds and also allow installation commanders more flexibility in executing their budgets. This study analyzes current problems and outlines some alternatives to improve the budget process. A biennial budget would allow Congress sufficient time to enact authorizations and appropriations and provide top managers in DoD and Congress time to better plan and evaluate all programs. DoD currently submits a biennial budget to Congress. However, until Congress begins authorizing and appropriating funds on a biennial basis, DoD is basically submitting a biennial budget every year. In addition, implementing programs such as the Defense Business Operations Fund and removing unnecessary financial constraints on installation commanders will help DoD get the most value for every dollar spent.

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## INTRODUCTION

The federal budget process must be reformed. The process has become so time consuming that it dominates the workload of our Congressmen, congressional staffers, and our senior leaders and action officers within the Department of Defense (DoD). Because of the time spent in formulating, presenting, and justifying the budget every year, little time is left for the leaders of Congress and DoD to analyze and develop strategic concepts and visions.

With the reduction of the DoD budget, we must also critically review and reform the federal budget process to ensure we get the maximum use from our diminished resources. We must improve the procedures that currently impede the effective use of our funds. One problem is that most Congressional appropriations are passed after the start of the fiscal year. These late appropriations disrupt the annual spending plan, causing millions of Army dollars to be spent unwisely at the end of the fiscal year.<sup>1</sup>

The heavy reliance on continuing resolutions allows less time to execute DoD's budgets properly and makes long-range planning difficult. Managers of annually authorized programs have little flexibility; they must spend the funds appropriated for a given year or run the risk of losing budget authority in the budget decisions of succeeding years.

Also, installation commanders need additional flexibility to properly execute their budgets. Commanders are continually faced

with unnecessary restrictions which impede their mission performance. Congressional and military leaders have been devising ways to change the budget process for several years. However, the FY 1993 Defense Senate Appropriation Bill clearly indicates that many congressmen favor increased control and micro-management of the Department of Defense's budget.<sup>2</sup>

Congress must initiate budget reforms to improve the DoD budget process. Specifically, Congress should implement a biennial budget cycle. Such a cycle would reduce the congressional use of continuing resolutions and would help correct two problems in the current DoD budget process: late appropriations and year-end spending. However, if Congress does not approve biennial budgeting, then such an alternative as extended obligation authority should be pursued to help correct these problems.

Congress should also provide DoD additional flexibility to properly execute their budgets. Installation commanders are in the best position to determine the priority of installation spending -- not Congress. Additionally, installation commanders should be allowed to keep funds that they generate through innovative procedures.

#### **CONGRESSIONAL BUDGET PROBLEMS**

Two of DoD's budget problems -- late appropriations and year-end spending -- are also problems with other federal agencies. Congress is responsible for both problems. Therefore,

in order for these DoD problems to be corrected, Congress's problems must first be understood and analyzed.

The current Budget Act was designed to create a framework where Congress could set national budget priorities and establish appropriate levels of federal revenue and expenditures. However, the current Budget Act has presented great difficulties, including severe timing problems and increased use of continuing resolutions. The budget has become so all-consuming that little time is left for other legislative matters.<sup>3</sup>

Each year Congress continues to set new records in missing deadlines. Only twice since 1974, when the Budget Act was enacted, has Congress completed action on all 13 regular appropriation bills by the beginning of the fiscal year. Moreover, only once in the decade of the Eighties was the Congress able to complete action on all individual appropriation bills by 1 October, the beginning of the fiscal year.<sup>4</sup> This persistent failure to enact regular appropriation bills prior to the beginning of the fiscal year requires the Congress and the President to agree on a continuing resolution to fund the federal government's operations. Time and time again the budget process reveals that there is simply not enough time available for Congress to complete all the actions necessary to enact a budget by the start of the fiscal year.

The large number of continuing resolutions during the past two decades points out a problem of stability in the budget process. These delays cause lost productivity, disruptions in

services, lowered respect for the federal government, and some direct costs. These negative effects impact on both DoD and DoD contractors.<sup>5</sup>

Under existing law, Congress must pass two budget resolutions each year. The first budget resolution must be completed by 15 May to set targets for spending. Then a second budget resolution must be completed by 15 September to set binding floors in revenue and ceilings on expenditures.<sup>6</sup> However, as previously mentioned, Congress's record in meeting these deadlines has been very poor.

A major reason for Congress not meeting its deadlines is that the scope and level of detail in the annual defense budget review process has grown significantly over the past twenty years.<sup>7</sup> The detailed focus of the budget review can be measured by the number of line-item adjustments Congress makes to the defense authorization and appropriation bills. On the average, the committees have recently adjusted more than 60 per cent of the line items in DoD's request.<sup>8</sup>

Budget justification books are another measure to show the growth and detail of the annual review. For 1990, the justification book was over 30,000 pages. This was over two and a half times as many pages as a decade earlier.<sup>9</sup> In addition, the number of reports Congress required increased over 220 per cent during the past decade.<sup>10</sup> The tight schedule of the budget, along with the voluminous amount of budget material, has

therefore left little time for congressional oversight or normal legislative activity.

### **DoD BUDGETING PROCESS**

What is an effective and efficient resource allocation system? Effective decision-makers first develop a plan to guide their decisions; next, they make intelligent trade-offs in how resources are allocated among multiple projects; and finally, they evaluate the results of their trade-offs for consideration in future decisions. Basically, they have a strategic vision of where they want to go; they make the necessary trade-offs; and they evaluate the results in order to improve future plans and decisions.<sup>11</sup>

The DoD's Planning, Programming, and Budgeting System (PPBS) involves a cycle of decision-making that starts with plans, moves to programs, and ends with budgets. The entire PPBS cycle takes over three years to complete. In addition, defense officials do not have the luxury of working on only one budget at a time. Pentagon officials centrally involved in the PPBS cycle are usually dealing concurrently with three separate budget exercises and are therefore involved in three separate PPBS cycles. First, they are controlling expenditures for the current fiscal year's budgets; second, they are defending the budget submission to Congress for the next fiscal year; and third, they are developing plans and programs for the next PPBS cycle.

Decisions on the allocation of resources are essential. When too large a share of the time is expended on trading off, not enough is left over for planning and evaluation, and the next set of decisions is not as fully informed as it could be.<sup>12</sup>

In the last twenty years, DoD budgeting has become more complex and, according to the testimony of participants in both Congress and the Pentagon, more burdensome and time-consuming.<sup>13</sup> Although annual budgeting is not the sole cause of poor planning and evaluation, it is one of them.

### **Reprogramming**

DoD does have a reprogramming process to solve some of the problems that I have discussed. However, as GAO outlined in a 1986 report, the process is both cumbersome and time-consuming within both DoD and the Congress because of the many levels of review and complicated procedures.<sup>14</sup>

Reprogramming allows funds to be used for purposes other than those originally intended when Congress appropriated the funds. DoD's reprogramming guidance states that such requests must be for higher priority items based on unforeseen military requirements. Reprogramming approvals from Congress thus results in the reapplication of resources, not in additional funds.

Reprogramming differs from transfer of funds. Reprogramming facilitates shifting funds from one item within an appropriation to another; transfers allow the shifting of funds between appropriations. Thus, a shifting of funds from O&M to Procurement is a transfer, while a shifting of funds from one

program to another within O&M is reprogramming. Reprogramming is a nonstatutory arrangement involving an informal agreement between DoD and the Congressional committees. Transfers, however, are prohibited without statutory authority.<sup>15</sup> Congress should simplify the reprogramming process and allow DoD to shift resources both within and between appropriations without the extensive reporting requirements that currently apply.

#### **DoD BUDGET EXECUTION PROBLEMS**

Before specifying some DoD budget problems, we should review appropriations within DoD. Congressional appropriations in DoD can extend from one to five years. Three of the five basic DoD appropriations -- Military Construction; Research, Development, Testing, and Evaluation; and Procurement -- are authorized for more than one year. Operation and Maintenance (O&M) and Military Personnel are appropriated for one year at a time. Under present law, funds can be obligated only during the year for which they are appropriated. Congress allows longer term appropriations under those circumstances in which other considerations either outweigh this need for control or make the annual cutoff impossible.<sup>16</sup> Two perennial DoD problems are late appropriations and year-end spending. The DoD O&M expenditures resulting from late appropriations and year-end spending are perhaps the greatest source of waste in military spending. The one-year O&M appropriation is mainly concerned with the readiness and sustainability of our current forces.

### **Late Appropriations**

The present fiscal year runs from 1 October to 30 September. This period was established to provide Congress with sufficient time to both authorize and appropriate funds and give obligational authority to DOD prior to the start of the fiscal year. Operating agencies must have obligational authority by the first day of the fiscal year; otherwise, the agency cannot legally obligate money. In effect, the functions that were authorized and operating under the prior year's appropriation expire at the end of the fiscal year. They can be revived only by new appropriations.

But Congress can, and regularly does, pass a continuing resolution which allows agencies to start the fiscal year by obligating funds at the same rate and for the same purpose as in the prior year. Although this effectively keeps agencies from shutting down, the system does produce serious problems. For example, continuing resolutions do not allow for planned increases in programs or for any new programs. Therefore, planned projects, such as new starts, which cannot begin until the appropriation is passed, may end up costing more because of the delay. For instance, if Congress failed to appropriate funds for a minor contract scheduled for the beginning of a fiscal year, interested contractors might go elsewhere rather than wait, thereby reducing the economies of competition. Also, defense contractors have a difficult time scheduling the efficient use of their production lines when the size and character of the buy are

not known until after the start of the fiscal year.<sup>17</sup> Even if funds are appropriated by the end of the first quarter, actual work costs may increase because of the later starting date.

Another problem with late appropriations, which continuing resolutions only partially solve, is the cost of compacting twelve months of spending into a shorter time. Not only must budget execution plans be adjusted, but also purchases requiring long lead times may have to be moved to a later year. Thus expenditures of appropriated funds are no longer as orderly, since they are done to accommodate a hastily changed plan. The delay in spending plans could certainly lead to increased costs.

#### **Year-End Spending**

A major effect of short-term appropriations, such as O&M, is a broad phenomenon called year-end spending. A GAO report noted Congress's concern over a recurrent pattern of year-end spending surges within Federal agencies. GAO stated that there were numerous cases "where the spending surges stem from hasty and unplanned decisions, and have negative impacts." The report describes how wasteful year-end spending adversely affects the budgetary process, personnel morale and the quality of expenditures.<sup>18</sup>

The requirement to obligate funds by the end of the term puts a calendar constraint on projects which are not totally under the control of the agencies. If for any reason a project is late and the funds programmed for it are not obligated by the end of the term, the funds will be lost to the agency. Since the

project was not programmed for the subsequent fiscal year, it must be reprogrammed or canceled. Some program slippage will happen at the end of every term. In O&M, this occurs with annual regularity.

This slippage problem certainly wastes money, causes excess and unnecessary work, and leads to lost opportunities. But its major effect is to create a "use it or lose it" philosophy which has spread through the DoD and all other federal agencies. This philosophy "justifies" extravagant year-end spending. Regulations state that personnel should ensure that all funds are properly spent before the end of the fiscal year.<sup>19</sup> Personnel executing these budgets face the choice of having leftover funds and answering questions about them or of spending all the funds.

In Reinventing Government Osborne observes that

Normal government budgets encourage managers to waste money. If they don't spend their entire budget by the end of the fiscal year, three things happen: they lose the money they have saved; they get less next year; and the budget director scolds them for requesting too much last year. Hence the time-honored government rush to spend all funds by the end of the fiscal year.<sup>20</sup>

Under these pressures, year-end purchases tend to bring every budget in the DoD close to a zero balance at fiscal year-end. This certainly results in inefficiency.

The costs of this kind of spending are immeasurable. To spend all of the funds, agencies buy items they may not need. Many of these purchases place false demands on the supply system, deplete the stockage level, and therefore deprive needy customers of these goods. In the rush to obligate year-end funds, the

buyer may also lose bargaining power. Because the "use it or lose it" philosophy is well known outside the government, a contractor involved in negotiations may attempt to overcharge the government at a critical time.

A related problem arises when Congress is three months late in passing a one-year appropriation, as occurred in 1990. Now that appropriation must be executed in only nine months. Suppose three "new start" contracts were scheduled to occur serially -- each dependent on completion of the other. The late appropriation could well require the last contract to be moved into a new fiscal year. Under the present obligation requirements, the activity would not only have to spend the money appropriated for the third contract through year-end spending but also have to reprogram the third contract into the next budget year, when no funds were previously programmed, because the work was presumed to have been completed and paid for.

Installation commanders must have access to their funds at the beginning of the fiscal year; likewise, they should have the authority to shift resources as priorities change. They should also be allowed to carry over funds they didn't spend in one year and spend them on other priority items the next year. This would eliminate much of the wasteful year-end spending.

#### **COMMANDER'S FLEXIBILITY**

Installation commanders must be provided additional flexibility in the execution of their budgets. The ability of

the Army to respond to changes in the fiscal environment depends upon fiscal flexibility in the O&M appropriation. As installation commanders are given more responsibility in financial decision making, we must also give them the tools to operate in the new financial environment.

The problem with DoD budgets is that they fence the money into several separate accounts. The Army currently allows commanders to shift O&M funds within established major programs. Major programs are Program 2,3,8,9,etc (see Table 1). Restrictions prohibit moving funds between major programs and migrating resources into or out of intelligence activities, depot maintenance and support activities, and congressional interest items. These restrictions ensure that the money is spent as Congress mandates.<sup>21</sup>

Thus an installation risks administrative action if it moves funds between these accounts. Such funds could be denied and the excess funds withdrawn from the installation. The next year they could receive less money. As a consequence, many commanders will usually keep the line items they were provided.<sup>22</sup> Why go through the hassle if you will not be allowed to spend it for something more important? Especially if your savings are going to be transferred to another installation who overspent their budget!

Obviously, this is not how a normal business or family budget is run. A business or family will budget for anticipated expenditures and maintain the flexibility to adjust as the need

arises. When emergencies or opportunities come along, the family budget is then adjusted to take care of the problems or take advantage of a favorable situation.

### **Unified Budget Test**

In an attempt to convince Congress that commanders can better manage their installations when provided additional flexibility, the DoD recently conducted a Unified Budget Test (UBT). The UBT allowed selected installations to experiment by providing commanders greater fund flexibility to determine if this additional freedom contributed to increased productivity. Normal installation budgets, first developed three years previously, include hundreds of specific line items. The UBT allowed commanders to ignore the line items and shift resources both within and between appropriations as needs changed.

The test revealed that 7 to 10 percent of the installations' funds were in the wrong account. So when commanders were given the leeway to shift resources, they could significantly increase the performance of their installations. The Army compared its two UBT participating posts with normal posts and concluded that the Unified Budget increased performance by 3 percent. DoD officials concluded that "Senior leaders in the Services have estimated that if all unnecessary constraints on their money were removed, they could accomplish their missions with 10 percent less money."<sup>23</sup>

UBT provided a typical example of how commanders used their new found flexibility: a UBT post experienced a mild winter and

saved money on their Family Housing utility bills. The commander determined that the excess Family Housing funds would be used to conduct an additional field training exercise requiring O&M funds.<sup>24</sup> Under current procedures, the excess Family Housing funds would be returned to higher headquarters for another installation to use and would not be available to the commander to support an O&M or a Family Housing requirement in another account. The UBT allowed the commander to prioritize the installations requirements and thereby provided the flexibility to execute these requirements.

#### **Congressional Restrictions**

Full implementation of an Unified Budget would require congressional action to eliminate the separate appropriations and line items and provide installation commanders with one pot of money. However, the language in the FY 1993 Defense Senate Appropriation Bill added more restrictions and would have significantly reduced the Services' flexibility in executing their O&M budgets. The report increased the number of programs subject to reprogramming rules from 6 to 55 activities.<sup>25</sup> This type of micro-management by Congress certainly restricts a commander in the execution of their budget.

The FY 1993 Defense Appropriation Act provided DoD some relief for this fiscal year. The conference report modified the Senate's allocation guidelines by allowing the services to shift funds between the 55 categories in FY 1993; even so, it requires DoD to report any adjustment to a single category in excess of

ten percent of the allocation. The report also requires DoD to recommend to Congress the number of activities that should be established and controlled in FY 1994.<sup>26</sup> Table 1 depicts the difference between the current flexibility in O&M reprogramming (6 programs) and Congress' proposed adjustment (55 programs). Congress should "grade" the Army on their mission accomplishments -- not on how much money they spend in one of the proposed 55 programs.

### **Army Initiatives**

In addition to continuing to work with Congress, DoD and the Army must provide commanders with as much flexibility as possible by ensuring that internally imposed funding restraints such as floors, fences, and targets are not placed on commanders. Commanders must have the flexibility to reprogram funds locally to meet mission requirements. Commanders must also be provided the incentives to save and to reduce wasteful spending.

If Congress continues to restrict DoD's flexibility in the execution of their budgets, Major Commands and installation commanders must develop innovative procedures to provide additional income for their installations.

The Army's Training and Doctrine Command (TRADOC) is one of the Major Commands that continues to provide their installations with maximum flexibility. In their FY 1993 Budget Guidance, TRADOC transferred a significant portion of their Program 2 funds to Program 8. This increased the Program 8 funds to 90% of the total O&M funding. Thus commanders had a larger "pot" of money,

which increased their flexibility to reprogram and cross-level their scarce resources.<sup>27</sup>

The FY 1991 Defense Authorization Act and the FY 1993 Defense Appropriation Act allow DoD installations to retain some of the revenues from the sale of excess real property and the leasing of real and personal property.<sup>28</sup> Previously, there were no incentives for local commanders to reduce costs because any savings either expired or reverted to higher headquarters; they were not available for installation use. For example, installations could increase their funds by leasing excess or underutilized facilities to the local community -- such as maintenance bays, classroom space for evening instruction, National Guard Armories for craft fairs and concerts, and excess computer time. Installations could use such new authorizations to generate additional revenue.

With the downsizing of the Army, we must reexamine the voluminous amount of detail that is required in the preparation, justification and execution of the budget. Reports must be reduced to the minimum required to justify the budget to Congress.

Also, the Army must decide which missions it will eliminate as resources are withdrawn. Major Commands can no longer afford to absorb new projects and missions without the necessary resources.

CURRENT OMA MAJOR PROGRAMS		CONGRESS' PROPOSED CATEGORIES	
2 General Purpose Forces	201	Combat Developmt	206 P2M Envrnmntal
	202	Land Forces	207 RPMA
	203	JCS Exercises	208 BASOPS
	204	Unified Cmds	
3 Command, Control, Communications, Info & Intelligence	301	Non Def Commo	306 P3C Envrnmntal
	302	Strategic C2	307 RPMA
	303	INFO Srvcs	308 BASOPS
	304	Commo Security	309 Strat Intel
	305	Def Commo Spt	
7 Supply, Maintenance and Environmental	702	Conventnal Ammo	707 Transportation
	703	Troop Subsist	708 P7S Envrnmntal
	704	Log Spt Act	709 RPMA
	705	Real Estate	710 BASOPS
	706	Supply Ops	711 Other Depot Mn
8 Training, Medical and Other General Personnel Activities	813	Off Acquisition	824 BASOPS
	814	Flight Training	825 Conting Ed
	815	One Station Trng	826 Civ Trng & Ed
	816	Prof Education	827 AFRTS
	817	Acquisition	828 JR ROTC
	818	Recruit Trng	829 Family Pgm
	819	SR ROTC	830 Pers Spt Act
	820	Spec Trng	831 Recruiting & Ex
	821	Training Spt	832 VetEd Asst Pgm
	822	P&T Envrnmntal	833 BASOPS
	823	RPMA	
9 Administration and Associated Expenses	901	Criminal Invest-igations	904 Srvswide Spt
	902	Hqs Spt	905 BASOPS
	903	Public Affairs	
10 Support Other Nations	1001	Internl Hqs Spt	
	1002	Misc Spt Nations	
		Classified PGMS	
TOTAL: 6 CURRENT PROGRAMS		55 PROPOSED PROGRAMS	

TABLE 1

## BIENNIAL BUDGETING

In Making Defense Reform Work, John Hamre states that:

one conviction has united Congress and the administration, Republicans and Democrats, liberals and conservatives: a growing disaffection with the way the federal government reviews and adopts annual budgets. The process is cumbersome, duplicative, and unending. Controversy in one year spills over into the next.<sup>29</sup>

To alleviate these problems and correct previously stated DoD problems, Congress should adopt a two-year or biennial budget. A biennial budget was recommended in the 1986 Report of the President's Blue Ribbon Commission on Defense Management (the Packard Commission). Public Law 99-145 directed the DoD to submit a biennial budget to Congress.<sup>30</sup> DoD introduced the two year budget in the FY 1988/89 submission to Congress. However, Congress continues to appropriate only one year at a time. This requires DoD to submit a budget every year, which negates many of the benefits of a two year budget cycle.

### Congress and Biennial Budgeting

Over the past several years, members of Congress have introduced numerous bills that would institute a biennial budget process. Virtually every study group and panel, including GAO, has embraced biennial budgeting as a necessary reform of our budget process. Mr. Blackwell stated in Making Defense Reform Work:

Congressional oversight should shift away from detailed budgetary matters to more basic and important questions of the nation's security objectives and military strategy, the preparedness of the Armed Forces, and the effectiveness of the acquisition system. To achieve this objective, the entire federal budget should be

shifted to a biennial basis. If that change is not possible, at least the Department of Defense's budget should be prepared, reviewed, and appropriated on a two-year basis. Sufficient flexibility can be built into a two-year process of budgeting, authorization, and appropriation to input greater stability while hedging against the unexpected.<sup>31</sup>

However, such wholehearted recommendations have yet to produce practical results. A Biennial Budget Act was submitted as a report by the Committee on Governmental Affairs in March 1990; it called for Congress to implement a two-year cycle to improve the budget process. This report, however, never made it out of the Committee on Governmental Affairs.<sup>32</sup>

Both Les Aspin, Secretary of Defense, and Senator Sam Nunn, Chairman of the Senate Armed Services Committee, are convinced that Congress needs to do a better job in overseeing the DoD. Nunn declares that, "The budget cycle drives the Congress, and the Congress drives the Executive Branch to such an obsession that we don't have time to think about strategy."<sup>33</sup> Both Aspin and Nunn agree that a two-year defense budget could help the authorizing committees get out of the details of budgeting and get into the larger policy issues. They also believe that all of Congress needs the time that a two-year budget would provide.<sup>34</sup>

In addition, a vast majority of congressional staffers who responded to a survey favored use of multi-year authorizations and appropriations to improve the stability in the defense budget process.<sup>35</sup>

Even though Congress directed the Pentagon to submit a two-year defense budget for the 1988/89 budget, they have been

unwilling to change their way of operations, as Blackwell observes:

The legislature has not been willing to reform its own ways of doing business by implementing mechanisms to implement greater stability into its own involvement in defense policymaking - not even to authorize or appropriate the two-year budget that now is prepared and submitted by the Defense Department. The reluctance of Congress to reform its own involvement in defense oversight has been the most significant failure in the defense reform process since 1986.<sup>36</sup>

Congress could make significant and constructive changes in its own procedures without sacrificing much of its prerogatives and flexibility in the process. However, many Congressmen have a difficult time relinquishing power by adopting a two-year budget cycle:

The difficulty Congress has with such an approach is that the conditions affecting the impact of their decisions can change so rapidly that elected officials are reluctant, in effect, to delegate their fiscal responsibility to the executive branch in a single vote for the entire legislative term.<sup>37</sup>

The Armed Services Committees of Congress are both supportive of a biennial budget; however, the two Appropriation Committees are opposed. The Appropriation Committees do not want to yield more control to the executive branch.<sup>38</sup> Both Authorization and Appropriation Committees must adopt biennial budgeting at the same time. Authorizing a two-year budget will do little good if the Appropriation Committees continue to appropriate annually.

## Biennial Budgeting Implementation

To understand how biennial budgeting will affect DoD, it is important to note some of the potential advantages over the current system and to understand how the new system might be implemented by Congress. Biennial budgeting would provide Congress with more time for long-range planning and oversight. It would also provide the opportunity for better budget analysis, financial and operational planning, budget execution, and program review by both the Congress and the DoD.

A critical start-up factor in biennial budgeting is to determine the sequence of key events and then to draw up a realistic biennial timetable. Any budget timetable represents a series of decisions about the choice of key events in the budget process, the sequence of those events, and the amount of time allowed for each event.

One proposal provides that all budget decisions would be made in the first session of Congress; the second session would be devoted primarily to oversight. This timetable is attractive because it could allow difficult budget votes to come in a non-election year; it would allow budgets to be adopted during the first years of a President's term when there is more chance of consensus between the President and the Congress. It would further allow a newly-elected President to initiate swiftly the programs outlined in the campaign. Finally, it would leave the Congress relatively free in the second session to perform program

and policy oversight, to build a base of information for consideration in the subsequent biennium.<sup>39</sup>

A biennial budgeting system would not mean passing a budget once every two years and having to live with it, no matter what happens. A biennial budget system should provide the flexibility to adjust to contingencies and changing conditions. The General Accounting Office conducted a review of nineteen states currently using biennial budgeting and found that most accomplish the adjustment through an annual review process in the second year.<sup>40</sup>

However, the budget adjustments must be limited to matters that cannot wait until the next biennial budget. If the adjustment process becomes simply a vehicle for reopening decisions, the advantages of two-year budgeting will soon be lost.

#### **DoD Biennial Budgeting -- Planning and Evaluation**

Two on-going deficiencies in the DoD Planning, Programming, and Budgeting System resource allocation mechanism have been poor planning and inadequate evaluations. These deficiencies improved when DoD went from annual to biennial budgeting. The change allowed DoD top-level management time to better plan and evaluate defense programs. One-year programs contribute to the excessive focus in the Pentagon on the near term. With every program being reviewed annually, few people have the time to take long-term planning seriously.<sup>41</sup> However, until Congress begins appropriating on a two-year basis, the Pentagon is really preparing a biennial budget every year.

### **DoD Biennial Budgeting -- O&M Funds**

Biennial budgeting would extend the term of the single-year appropriation, like O&M, to two years. This option would reduce inefficient year-end spending and obviate the "use it or lose it" philosophy; it would as well lessen the effects of late appropriations resulting from continuing resolutions. It would also allow more time for detailed planning for the second year's activities, since the availability of funds would be assured. Also, O&M funds do not change very much from year to year, so more time could be devoted to more substantive budget requests of a higher priority. On the other hand, planning and programming are less accurate in the long term, so both the DoD projections and Congress's review would be subject to increased uncertainty for the "out" year. This problem could be corrected if an adjustment mechanism was included in the budget process to make necessary revisions during the second year.

### **DoD Biennial Budgeting -- Procurement Funds**

Biennial budgeting can result in increased savings in procurement contracts. Two years of dollars up front enable program officers to bargain better with contractors. They could realize savings from buying in greater quantities or from setting prices that lock in two years instead of one and thus negate the effects of inflation in the second year. More stability in the funding levels of weapon programs should lead to less program turbulence and therefore greater dollar savings. A major factor in program turbulence is the stretching out that occurs in

production rates when the annual budget is insufficient to support all the programs.<sup>42</sup>

Another way to achieve the benefits of quantity buying in procurement accounts is multi-year authorizations. The Pentagon has successfully utilized multi-year authorizations during the last few years. In fact, the 58 multi-year contracts approved by Congress between 1982 and 1989 saved over \$9 billion compared to annual procurement.<sup>43</sup>

The Pentagon enters into a contractual agreement with a defense firm that commits the Pentagon to buy a given number of systems over a fixed number of years. In return for this commitment, the defense firm gives DoD a better price. Congress still appropriates funds each year, but most contractors trust that the government will make good on its commitment.<sup>44</sup> However, given reduced budgets and the uncertain future, a biennial appropriation, along with multi-year authorizations, would enhance the stability in the procurement budget and result in further savings.

Top management in DoD must be given the time to focus on reviewing the effectiveness of its ongoing programs and policies; this will result in better evaluations and improve future trade-off decisions. DoD should remain on a biennial cycle, with the review occurring in the second year. DoD cannot effectively both budget and review annually; if it does, as a former DoD deputy comptroller noted, "you can do both at the same time but you will

do both poorly. An implementation review will always be iffy if you don't have an adequate time slice."<sup>45</sup> Biennial budgeting provides that "time slice".

## **ALTERNATIVES TO BIENNIAL BUDGETING**

### **Extended Obligation Authority**

What if biennial budgeting fails to pass Congress? Perhaps other options could alleviate the problems caused by late appropriations and year-end spending. For example, we could extend the obligation authority on the O&M appropriation. This would affect only the budget execution phase and would require the law be changed that requires funds to be obligated during the year for which they are appropriated. For example, obligation authority could extend for one year beyond the end of the appropriation year.

Year-end funds would be subject to two controls. First, only a portion of a year's funds would be allowed to carry over to the next year, and limits would be established for the orderly spending of the funds. For example, no more than 100% and no less than 80% of the fiscal year's funds could be obligated by the end of the fiscal year. This lower limit could be established at a level consistent with the perceived magnitude of year-end surpluses.

Likewise, perhaps funds should not be carried forward to a new fiscal year unless they were specifically associated with an

approved purchase or identified with projects that had slipped over the fiscal year, such as long lead-time purchases or delayed contracts. Excess funds that could not be associated with a specific project would simply be lost. The year-end close-out process would include justification and approval of these carry-overs. The execution process would keep track of the projects as they were completed.

Extended obligation authority could be used if biennial budgeting is not passed by Congress because it does not alter the current planning, programming, authorization, and appropriation process. This alternative would allow year-end spending decisions to be made rationally, thereby eliminating the need for Congress to authorize and appropriate -- and DoD to budget -- for the same purchase twice. It would also eliminate much of the pressure for a "use it or lose it" philosophy. However, funds not attached to approved projects would still exist. Extended obligation authority would also lessen some of the bad effects of late congressional appropriations, because it would allow operation agencies to shift their 12-month budget execution plan so that some of the obligations could occur after the end of the fiscal year. However, this alternative would undoubtedly increase the complexity of year-end closeouts in the agencies.

#### **Defense Business Operations Fund**

Another alternative that could significantly improve DoD budget execution problems is the full implementation of the Defense Business Operations Fund (DBOF) concept. DBOF and unit

cost resourcing were established by DoD as the financial framework to assist in the management of resources during DoD's downsizing and restructuring. This framework provides managers visibility of all costs so that their decisions include consideration of how to get the best product or service for their dollar.

DBOF has several goals: (1) to create a business environment that stresses quality and encourages managers at all levels to reduce costs; (2) to provide managers and employees the management tools and financial information to evaluate productivity; and, (3) to eventually move all support functions into DBOF and operate on a revolving fund basis.<sup>46</sup> In other words, the Army's support structure will come from business activities that must sell their products if they want to continue to operate. Funds will be provided to the mission customers and they will buy the support they require.

DBOF has defined some specific objectives for attaining the foregoing goals: (1) link support function resources to the mission they support; (2) identify all support function costs and tie those costs to the outputs that are produced; (3) strengthen the customer-provider relationship by aligning funds to mission customers and requiring the customer to pay the provider for support; (4) provide managers the freedom to make "business" decisions.<sup>47</sup>

The original DBOF concept was to move all directly funded support functions into a revolving fund. This would allow work

load to drive costs in a "no year" money environment. Managers could establish a price for their goods and services that would recover the costs of production and provide for future improvements. This concept would thus eliminate annual budget battles for resources and hassles at the end of the year in trying to spend every dollar at the last minute.

Unfortunately, it will not be easy to transition from direct funding to DBOF. Implementation of DBOF will require a major effort by all services. For DBOF to be successfully implemented, the following conditions must be met: (1) a clear, quantifiable output of the function; (2) a specific set of customers that require that output; (3) a definable unit cost for the output that serves as the price charged to customers; (4) a beneficial customer-provider relationship; and, (5) a cost accounting system that allows DBOF to function like a business."

Until these conditions are implemented, DBOF will have to operate in the current appropriated fund environment. This means that all statutory limitations and fiscal year execution rules would have to be adhered to and that the flexibilities mentioned above with regard to revolving funds would not apply. DoD and the Army must continue to work the DBOF initiatives. DoD must also maintain Congressional support for DBOF by providing information on the improved efficiencies that can be gained by implementing "business" operations in DoD.

### **Extended Fiscal Year**

As a last resort, if Congress is unwilling to approve budget reforms, they should consider adding three months to the budget deliberations by moving the start of the fiscal year to 1 January. Past performance has shown that Congress cannot complete the budget process in nine months. Although this move would not speed up the legislative process, it would limit some of the problems I discussed with late appropriations and provide Congress additional time to complete the budget process.

### **CONCLUSION**

The current budget process is obviously not functioning properly. Budget reforms are in order. The recurring continuing resolutions in the last two decades clearly indicate that Congress does not have sufficient time to perform the authorization and appropriation process. This results in substantial funds being inappropriately and wastefully spent at year-end. Congress must provide DoD timely appropriations and they must simplify the budget process and procedures.

A biennial budget offers the best solution to allow Congress sufficient time to enact authorizations and appropriations and also allow Congress more time for thorough review of the DoD programs. Biennial budgeting can free up top managers in DoD and Congress, providing them the time to plan and evaluate better. It will also help DoD implement goals by translating strategy into specific programs that support it. This should save money.

In an era of huge fiscal deficits, ever-increasing claims on the budget, and declining defense spending, that improvement is not only desirable, it is essential.

If Congress does not approve a two-year authorization and appropriation process, then an extended obligation authority alternative should be implemented. This alternative would change the operation of Congress very little. Although it would not lessen the likelihood of late appropriations from Congress, it would reduce improper year-end spending and the need for additional out-year reprogramming by allowing some funds to be carried over into the next fiscal year for obligation purposes.

Additionally, DoD must continue to fully implement the Defense Business Operations Fund (DBOF). DBOF will allow DoD to operate on a more business-like basis. It has the further potential of providing DoD the flexibility it requires to properly execute the budget process.

Commanders need maximum financial flexibility to properly run their installations. The Unified Budget Test revealed that efficiencies can be gained when commanders are given the freedom to command and execute their budgets. Giving a commander one pot of money, and then removing unnecessary constraints, will help DoD get the most value for every dollar spent.

These alternatives will not solve all of the current problems in our federal budget process. They would, however, be

a definite improvement over our current budget process. DoD should therefore work aggressively with Congress to adopt and implement constructive and meaningful budget reform, if only piece by piece!

## ENDNOTES

<sup>1</sup>Ronald J. Lynch, "Today's Financial Management Issues," Armed Forces Comptroller vol 33, (FALL 1988): 28.

<sup>2</sup>Congress, Senate, Department of Defense Appropriation Bill, 1993, Report 102-408, 102nd Congress, Sep 17, 1992, 35.

<sup>3</sup>Ibid., 38.

<sup>4</sup>General Accounting Office, Biennial Budgeting Bills in the 101st Congress, B-209565, (Washington, D.C.: U.S. General Accounting Office, 1989), 7.

<sup>5</sup>Lynch, 28.

<sup>6</sup>Congress, Senate, Committee on Governmental Affairs, Committee Report 101-254, Biennial Budget Act, March 21, 1990 101st Cong., 2d sess., 1990, Committee Print, p. 2.

<sup>7</sup>Department of Defense, White Paper on the Department of Defense and the Congress, (Washington: Secretary of Defense, 1990), 1.

<sup>8</sup>Ibid., 6.

<sup>9</sup>Ibid., 7.

<sup>10</sup>Ibid., 10.

<sup>11</sup>James A. Blackwell, Jr. and Barry M. Blechman, Making Defense Reform Work (Washington: Brassey's, 1990), 28.

<sup>12</sup>Ibid., 29.

<sup>13</sup>Ibid., 31.

<sup>14</sup>General Accounting Office, Budget Reprogramming, B-223474, (Washington: U.S. General Printing Office, 1986), 1.

<sup>15</sup>Ibid., 6.

<sup>16</sup>Department of the Army, Army Command, Leadership, and Management: Theory and Practice, (Carlisle, PA, U.S. Army War College, 1992), 14-32.

<sup>17</sup>James M. Lindsay, "Congress and the Defense Budget," The Washington Quarterly vol 11, (Winter 1988): 62.

<sup>18</sup>General Accounting Office, Year-End Spending. (Washington: U.S. General Accounting Office, 1986) 7.

<sup>19</sup>U.S. Army Institute of Personnel and Resource Management, Executive Handbook for Financial Management (Fort Benjamin Harrison, IN) 3-2.

<sup>20</sup>David Osborne and Ted Gaebler, Reinventing Government (Reading, MA: Addison-Wesley Publishing Co., 1992), 3.

<sup>21</sup>Theory and Practice, 15-13.

<sup>22</sup>Osborne, 118.

<sup>23</sup>Department of Defense, Special Report: The Unified Budget Test, (Washington: General Printing Office, 1988) 11.

<sup>24</sup>Ibid., 14.

<sup>25</sup>Senate Report 102-408, 35.

<sup>26</sup>Congress, House, Conference Report 102-1015, Conference Report on H.R. 5504, Department of Defense Appropriations Act, 1993, 102nd Congress, 2d sess., 5 October 1992, H11531.

<sup>27</sup>Major General Hagwood, "FY 93 TRADOC Budget Guidance," memorandum for TRADOC installations, Fort Monroe, VA, 17 March 1992.

<sup>28</sup>DoD Appropriations Act, H11570.

<sup>29</sup>Blackwell, 71.

<sup>30</sup>DoD Authorization Act, U.S. Code, vol. 2, sec 1049 (1985).

<sup>31</sup>Blackwell, 8.

<sup>32</sup>Congressional Clearing House, Senate Status on Senate Bill 29, (Washington: U.S. Government Printing Office, 1990) 29.

<sup>33</sup>Blackwell, 34.

<sup>34</sup>Ibid.

<sup>35</sup>Philip Simon, "The Role of Congress in Defense Budget Decision-Making: Views of Congressional Staff Members," Common Cause, April 1985: 7.

<sup>36</sup>Ibid., 8.

<sup>37</sup>Ibid., 7.

<sup>38</sup>Ibid., 40.

<sup>39</sup>General Accounting Office, B-209565, 3.

<sup>40</sup>Ibid., 8.

<sup>41</sup>Blackwell, 26.

<sup>42</sup>Ibid., 51.

<sup>43</sup>White Paper, 34.

<sup>44</sup>Ibid., 52.

<sup>45</sup>Ibid., 49.

<sup>46</sup>John R. Kohler, "New Directions in Financial Management," Resource Management (May 1992): 2.

<sup>47</sup>Ibid., 3.

<sup>48</sup>Ibid.

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